December 13, 2013

Jeff Scott Olson, Esq.
Sarah Furey Crandall, Trial Consultant
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131 West Wilson Street, Suite 1200
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Re: Six Star Holdings, LLC & Ferol, LLC v City of Milwaukee
LOST PROFITS ANALYSIS
Case No. 10-C-893 (WI Eastern District)
Our File No. 13295

Dear Mr. Olson and Mrs. Crandall:

You requested an accounting/economic analysis of the damages sustained by the plaintiff(s) as a result of actions (or in-actions) by the City of Milwaukee regarding application to operate a Gentlemen's Club in the City limits. Our comments are outlined below.

1-Testimony on this matter will be provided by John G. Peters, CPA, CFF, a shareholder in the firm and a licensed CPA in Wisconsin. Mr. Peters is a 1978 magna cum laude graduate of Rutgers University, Newark, NJ with a BA in Accounting and Economics. Mr. Peters pursued graduate-level studies in Austrian Economics between 1976-1978. Mr. Peters has completed at least 40 hours/year of continuing professional education (since 1984), with a substantial portion of that work devoted toward lost profits analysis. Since 2010, Mr. Peters has been Certified in Financial Forensics, a designation bestowed by the AICPA on practitioners with substantial experience and credentials providing accounting analysis in litigated matters.

Mr. Peters' entire 35-year career has been in public accounting, with a specialty in damages and lost profits evaluations. He is involved on at least 50 matters per year that involve some level of sales/profit forecasting but-for some event, whether a tort, injury, breach, or other calamity. Mr. Peters has been accepted as an expert in lost profits analysis in multiple state and federal jurisdictions. His opinions (including those with forecasts on start-up companies) have been the subject of Daubert challenges, none successful.

A listing of Mr. Peters trial, deposition, hearing, and arbitration testimony from 2008-2013 is shown on Appendix A. Mr. Peters has no published works. Peters & Associates, S.C. has invoiced approximately 30 hours of professional time on this matter at our normal hourly rates ranging from $80-$200.

2-The records/data relied upon by Peters & Associates in reaching its opinions include: (a) the 5/17/2013 disclosures by Ferol to the City with commentary, Maitre'D sales/admission reports from 7/2010-12/2012, and compiled income statements for 2008-2012 for Joscojo, Inc; (b) a copy of ordinance 108 – Public Entertainment Clubs and ordinance 83-1 - Theatres; (c) the City's 11/8/2013 admissions; (d) the 7/11/2013 letter to the City with data on Silk Exotic's revenue sources; (e) Midrad LLC 12/31/2012 depreciation schedule; (f) Midrad LLC compiled income statements for 2011-2012; (g) a timeline history for Outer Limits compiled by the Olson Law Firm; (h) results of a nation-wide survey of adult clubs that don't serve alcohol (note: survey conducted by the Olson Law Firm with design and direction by Peters & Associates); (i) a 5/2013 survey of Silk Exotic customers regarding attitudes to a non-alcohol serving club in Milwaukee; (j) a copy of a commercial lease for 117 West Pittsburgh; (k) the 3/18/2013 Court's decision and order; (l) the 8/28/2013 Court's decision and order; (m) the 8/28/2012 stipulated findings of fact; (n) and interview of Mr. Ferraro; and (o) internet research on adult entertainment facilities that don't serve alcohol.

3-In doing our analysis, we assumed that Ferol, LLC would open another Silk Exotic club, run as a theater that offered no alcoholic beverage sales to customer, presented all-nude erotic dance entertainment, was open 24 hours a day, and would have been open from 9/20/2012-3/12/2012 at 117 West Pittsburgh Avenue in Milwaukee. We also assumed that the theater would have continued to exist beyond 3/2012, but limited the lost profits analysis to the specific 18-month period above. Lastly, we assumed that the theater would have admitted customers aged 18 years and older.

4-In preparing any sales/profit projection for a prospective entity, an accountant should give consideration to: (a) the management team and whether it's been able to start-up and profit from similar entities before; (b) whether the entity has an available and suitable facility for business operations; (c) whether the entity has available supervisory staff; (d) whether the entity (or market) has a pool of available sub-contract or regular employees; (e) whether the entity has sufficient capital to commence and grow business operations; (f) the competitive environment; and (g) the learning curve.

We've given consideration to all of these factors. The management team for Ferol, LLC runs 3 other successful clubs under different names. The flagship "Silk Exotic" location on Silver Spring has been in operation since 2003. In the 4 years 2008 to 2011 (a comparable period to the projections undertaken herein plus one that considers experience before/after the "Great Recession") Silk Exotic had revenue ranging from $5.5 million to $4.0 million and never made less than $1.0 million in profit (based on its compiled financial statements). These facts address 4(a) and 4(e) above.

We viewed a lease between Ferol LLC and Pittsburgh 2009 LLC dated 7/29/2009 for 15-20,000sf of space at 117 West Pittsburgh with a monthly rent of $10,000 "commencing the first day Lessee opens for business a Gentlemen's club upon the Premises". We viewed the space and noted it to be "raw" building space with need of substantial renovations. Along with the lease copy were floor plans for varying stages of improvements at 117 West Pittsburgh showing how the raw facility would be/could be converted to a ready-to-use facility. We researched the Silk-Middleton (Outer Limits-Midrad LLC) depreciation schedule showing improvements to essentially ~8,000sf raw warehouse space in two

segments: ~$70,000 in mid-2009 over 2-3 months; and about $850,000 in 2-7/2011. The first improvements enabled the club to establish a level of $80,000/month in sales; the latter allowed an increase to ~$150,000/month in sales. Based on an interview with Jon Ferraro, we understood the construction to have been by a closely-affiliated contractor, who would have been the contractor for the prospective 117 West Pittsburgh location. We believe the documents/data we reviewed provide reasonable evidence that Ferol LLC could have converted the 117 West Pittsburgh location into a suitable club facility in the time period available prior to 9/20/2010. These facts address 4(b) above.

The opening, renovation, expansion, and success of the Middtleton location also provides support for 4(a), 4(c), and 4(g) above.

5 - The forensic accounting community provides guidance and acceptability on forecasting "start-ups" including use of the "yardstick method". In this case, we've used the revenue attained per customer by Ferol, LLC from Silk Exotic – Silver Spring as a basis (yardstick) to judge the revenue that could have been attained by a sister location at 117 W Pittsburgh. We looked at the 2010-2011 compiled financial statements for Silk Exotic and the Maitre'D attendance data for 2010-2012. We found that the club maintained an average weekly attendance of 1,323 customers in 2010, 1,316 in 2011, and 1,434 in 2012. The club's revenue per customer and profit earned thereon is shown in the below table:

a-Admission	$ 4
b-Alcohol Sales	23
c-Beverage/Food Sales	3
d-Service Fees	4
e-Entertainment Related	19
f-Boutique	1
g-Other	2
h-Sales Tax Paid	-3
REVENUE PER CUSTOMER	**$ 53**
Profit Earned on Revenue	**$ 16**

The next question we addressed is whether the same level of revenue could be attained by a Gentlemen's Club that didn't serve alcohol. Under our direction/input, a nation-wide list of Gentlemen's Clubs that didn't serve alcohol was compiled by staff at your firm, and we worked with your office to develop a list of questions to determine the attendance and revenue-drivers at those clubs. Responses from at least 50 clubs were obtained (and corroborated by us on a sample-basis). Two observations were clear from the responses: these clubs charged more for admission; and often had a drink minimum. The approximate revenue derived from these two charges at the surveyed clubs was $20/customer compared with the $27/customer (items a/b/c/h above) attained by Silk Exotic. After considering the longer hours available to the prospective Ferol, LLC operation (and the assumption that longer hours = longer revenue) and the possibility that added non-alcohol beverage would be purchased above the minimum, we believe that $50/customer is an attainable level of revenue for the Ferol, LLC operation.

6-We then addressed the issue of how many customers could the Ferol, LLC operation expect in a weeks' time. The results of the survey provided a fairly consistent feedback that 1,000 customers per week was a normal operating level of activity. This is more modest than the Silk Exotic location which attained weekly attendance between 1,316 and 1,434 customers.

In conjunction with our review, Silk Exotic conducted a survey (in 5/2013) of its existing customers. Over 50 responses were received. The survey asked whether Silver Spring customers would patronize a downtown club, even if it didn't serve alcohol. The responses were overwhelmingly positive and provide strong indication that the location-bonus would outweigh any issue arising from the lack of alcohol being served.

The available data shows that the proposed 117 W Pittsburgh location by Ferol, LLC could reasonably expect 1,000 customers per week.

SUMMARY – Based on our experience in projecting income for start-up and/or sister operations, commonly-accepted methodology in the forensic accounting community, actual attendance and financial data for 2 sister locations, and gathered industry data, we believe the losses sustained by Ferol, LLC as a result of not being able to operate for 9/20/2010 through 3/12/2012 are as follows:

Weeks impacted	77
X Attendance expected/week	1,000
X Revenue per customer	$50
=Lost Sales	$3,850,000
X Silk Exotic profit ratio (2010-11)	29%
=Lost Profit	**$1,116,500**

Our findings are to a reasonable degree of accounting certainty. Our findings are also likely conservative in the determination of the profit ratio of 29%. We assumed that the new Silk Exotic facility downtown would incur the full complement of costs as its sister facilities, and ignored any synergies that could be achieved, e.g. coordinating management, administrative, and advertising functions with the existing clubs and not incurring as much added cost. If significant synergies occurred, the incremental profit could be higher.

Very truly yours,

John G Peters

PETERS & ASSOCIATES, S.C.
John G. Peters, CPA, CFF